

APPENDIX E

BUDGET CONSIDERATIONS

Growth of I/T Importance

I/T represents a significant, and growing, portion of state operational expenditures. These investments represent a critical component in the delivery of quality public services, and will continue to grow in importance as agencies seek, and as citizens demand, the efficiencies offered by modern information systems. Government is information intensive; the delivery of information is itself a primary product. I/T investments generate a number of benefits, including quicker access to information, improved accuracy of data and transactions, greater consistency and improved reliability of service delivery.

Financing Of I/T Challenges

Financing I/T investments poses a number of unique challenges for the DoIT and for state government. The rapid rate of change in I/T, and its importance to the delivery of goods and services places unique pressures on DoIT to respond quickly to needs for I/T skills and products. Changing operating environments require that hardware and software be continually modified and upgraded. These changes are driven by technological innovation that continues to make available new capabilities in data processing, creating information systems that can process data faster and more reliably than yesterday's systems. The result is an environment where the standards that enable data sharing and collaboration are continually evolving. DoIT's basic infrastructure must be kept current; to take advantage of the benefits offered by common standards in hardware, applications, networks and communications, and organizations must plan for routine maintenance.

DoIT does not have the financial flexibility to keep pace with the rapid change in the I/T environment. The current process requires DoIT to delay technology enhancements for its customers because of the two-year state budgeting cycle. The only other alternative is to obtain funding through the Interim Finance Committee.

Additional Financing Mechanism Needed

The current financial structure does not permit DoIT to respond to rapid changes within the technology environment and customer needs. DoIT is requesting the approval for the establishment of a technology revolving fund.

Technology Revolving Fund

Replacement and/or modification of major information systems could be made more manageable through use of a Technology Revolving Fund. The fund would be a separate, dedicated, account that would be financed in part by annual amortization payments for equipment owned/purchased by DoIT.

This would be similar to the private sector practice of charging depreciation on I/T equipment and segregating these amounts into a fund to be used for system modification and/or replacement. Such a practice would explicitly recognize that I/T equipment purchases are assets to be managed, with ongoing costs and benefits that accrue over a number of years. Authorizing the amortized funds to be saved and carried forward across biennia would provide DoIT with a means to accumulate funds over a period of years to finance eventual system upgrades and/or replacement.

A replacement cost and estimated useful life would be forecasted for all equipment purchased. Dividing the cost by the estimated number of years of useful life would produce the annual amortization charge for the equipment. These amounts would be paid into a separate budget account, and accumulated until it was time to upgrade/replace the system. The new equipment would then be acquired, with little impact to the current budget, and the process would repeat itself, calculating new depreciation charges on the new equipment.

DoIT and the Legislative Oversight Committee would administer the revolving fund. DoIT would be required to obtain approval from the oversight committee for the expenditure of assets accumulated in the fund.

Depreciation Allowed By Statute/Federal Cost Principles

NRS 242.191(1)(a) allows DoIT to charge all expenses, including depreciation, for operating and maintaining the communication and computing division, and distributing the cost to user agencies in proportion to the services performed for each agency.

In addition, federal cost principles for State and Local Governments as described in the Office of Management and Budget (OMB) Circular No. 87 considers depreciation to be an allowable expense to be charged to recipients of federal grants.

Cost to Establish Technology Revolving Fund

DoIT currently is using depreciation expense to fund current operations, including the purchase of new equipment. Establishment of the Revolving Fund would require DoIT to recuperate through its rates or an appropriation by the Legislature the funding needed to establish the fund. DoIT in consultation with the Budget office and the Legislature would establish the size of the fund.
